

VILLAGE OF AUGUSTA, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 29, 2008



REHMANN ROBSON

Certified Public Accountants

VILLAGE OF AUGUSTA

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INDEPENDENT AUDITORS' REPORT

December 9, 2008

Honorable President and
Members of the Village Council
Village of Augusta, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the **Village of Augusta, Michigan**, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Village of Augusta, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund for the Village of Augusta, Michigan as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Village has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be a part of, the basic financial statements.

BASIC FINANCIAL STATEMENTS

VILLAGE OF AUGUSTA

Statement of Net Assets

February 29, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Pooled cash and investments	\$ 280,569	\$ 150,043	\$ 430,612
Accounts receivable	46,204	35,673	81,877
Bond issuance costs	-	23,700	23,700
Capital assets not being depreciated	4,948	-	4,948
Capital assets being depreciated, net	170,823	2,514,725	2,685,548
Total assets	502,544	2,724,141	3,226,685
Liabilities			
Negative equity in pooled cash and investments	-	184,706	184,706
Accounts payable	19,823	5,165	24,988
Accrued and other liabilities	6,864	7,719	14,583
Long-term liabilities:			
Due within one year	7,901	70,000	77,901
Due in more than one year	24,127	1,170,000	1,194,127
Total liabilities	58,715	1,437,590	1,496,305
Net assets			
Invested in capital assets, net of related debt	153,388	1,298,425	1,451,813
Restricted for:			
Highways and streets	88,200	-	88,200
Unrestricted (deficit)	202,241	(11,874)	190,367
Total net assets	\$ 443,829	\$ 1,286,551	\$ 1,730,380

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Statement of Activities

For the Year Ended February 29, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental activities						
General government	\$ 214,369	\$ 22,012	\$ -	\$ (192,357)	\$ -	\$ (192,357)
Public safety	70,808	-	4,500	(66,308)	-	(66,308)
Public works	64,660	-	-	(64,660)	-	(64,660)
Total governmental activities	349,837	22,012	4,500	(323,325)	-	(323,325)
Business-type activities						
Water supply	187,173	131,278	-	-	(55,895)	(55,895)
Sewer	108,861	72,674	-	-	(36,187)	(36,187)
Total business-type activities	296,034	203,952	-	-	(92,082)	(92,082)
Total	\$ 645,871	\$ 225,964	\$ 4,500	(323,325)	(92,082)	(415,407)
General revenues:						
Property taxes				204,762	-	204,762
State shared revenue				149,565	-	149,565
District court fees				25,487	-	25,487
Franchise fees				10,044	-	10,044
Miscellaneous				5,777	-	5,777
Unrestricted interest earnings				5,849	-	5,849
Transfers - internal activities				(67,743)	67,743	-
Total general revenues and transfers				333,741	67,743	401,484
Change in net assets				10,416	(24,339)	(13,923)
Net assets, beginning of year				433,413	1,310,890	1,744,303
Net assets, end of year				<u>\$ 443,829</u>	<u>\$ 1,286,551</u>	<u>\$ 1,730,380</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Balance Sheet Governmental Funds

February 29, 2008

	General Fund	Major Streets	Local Streets	Total
Assets				
Pooled cash and investments	\$ 84,188	\$ 63,396	\$ 12,996	\$ 160,580
Accounts receivable	5,877	-	-	5,877
Taxes receivable	13,838	-	-	13,838
Due from other governments	13,491	9,369	3,629	26,489
Total assets	\$ 117,394	\$ 72,765	\$ 16,625	\$ 206,784
Liabilities				
Accounts payable	\$ 12,994	\$ 600	\$ -	\$ 13,594
Other liabilities	6,274	138	452	6,864
Total liabilities	19,268	738	452	20,458
Fund balances				
Unreserved, undesignated	98,126	72,027	16,173	186,326
Total liabilities and fund balances	\$ 117,394	\$ 72,765	\$ 16,625	\$ 206,784

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to the Net Assets of Governmental
Activities on the Statement of Net Assets
For the Year Ended February 29, 2008

Fund balances - total governmental funds	\$	186,326
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated		4,948
Add - capital assets being depreciated, net		133,373

Internal service funds are used by management to charge the costs of certain activities, such as equipment usage and other centralized costs, to individual funds. The assets and liabilities of internal service funds are included in governmental activities.

Add - net assets of governmental activities accounted for in internal service funds		128,827
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences		(9,645)
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Net assets of governmental activities	\$	443,829
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended February 29, 2008

	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmenta Funds</u>
Revenues				
Taxes	\$ 204,762	\$ -	\$ -	\$ 204,762
Licenses and permits	1,974	-	-	1,974
State-shared revenue and grants	81,709	52,153	20,203	154,065
Other	67,195	-	-	67,195
	<u>355,640</u>	<u>52,153</u>	<u>20,203</u>	<u>427,996</u>
Expenditures				
Current:				
Legislative	12,133	-	-	12,133
General government	207,984	-	-	207,984
Public safety	69,819	-	-	69,819
Public works	21,833	-	-	21,833
Highways and streets	-	27,771	12,897	40,668
	<u>311,769</u>	<u>27,771</u>	<u>12,897</u>	<u>352,437</u>
Total expenditures	<u>311,769</u>	<u>27,771</u>	<u>12,897</u>	<u>352,437</u>
Revenues over expenditures	43,871	24,382	7,306	75,559
Other financing uses				
Transfers out	(67,743)	-	-	(67,743)
Net change in fund balances	(23,872)	24,382	7,306	7,816
Fund balances, beginning of year	121,998	47,645	8,867	178,510
Fund balances, end of year	<u>\$ 98,126</u>	<u>\$ 72,027</u>	<u>\$ 16,173</u>	<u>\$ 186,326</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended February 29, 2008

Net change in fund balances - total governmental funds	\$ 7,816
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Deduct - depreciation expense	(6,088)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not recorded as expenditures in government funds.	
Deduct - change in the accrual of compensated absences	(2,605)
Internal service funds are used by management to charge to costs of certain services to individual governmental funds. The net revenue (expense) of those funds is reported with governmental activities	
Add - net income from governmental activities in internal service fund	<u>11,293</u>
Change in net assets of governmental activities	<u>\$ 10,416</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual General Fund

For the Year Ended February 29, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes, collection fees, and interest	\$ 205,000	\$ 205,000	\$ 204,762	\$ (238)
Licenses and permits	4,200	4,200	1,974	(2,226)
State-shared revenue and grants	78,000	78,000	81,709	3,709
Other:				
Interest earned	5,000	5,000	5,849	849
District court fees	17,000	17,000	25,487	8,487
Miscellaneous	12,000	12,000	5,777	(6,223)
Administration fee	11,000	11,000	11,028	28
Cemetery income	10,000	10,000	9,010	(990)
Cable franchise fees	18,000	18,000	10,044	(7,956)
Total other	73,000	73,000	67,195	(5,805)
Total revenues	360,200	360,200	355,640	(4,560)
Expenditures				
Legislative - Village Council	13,100	12,200	12,133	(67)
General government:				
Elections	-	-	30	30
Treasurer	700	700	4,152	3,452
Hall and grounds	127,000	118,800	126,324	7,524
Garage	8,000	6,500	8,665	2,165
Inspections	2,000	2,000	2,016	16
Cemetery	20,000	20,000	17,132	(2,868)
Insurance and other funds	54,300	54,200	49,665	(4,535)
Total general government	212,000	202,200	207,984	5,784
Public safety - Police	70,200	69,000	69,819	819
Public works - Lighting	21,000	18,000	21,833	3,833
Total expenditures	316,300	301,400	311,769	10,369
Excess of revenues over expenditures	43,900	58,800	43,871	(14,929)
Other financing sources (uses)				
Transfers in	25,000	25,000	-	(25,000)
Transfers out	(68,300)	(68,300)	(67,743)	557
Total other financing sources (uses)	(43,300)	(43,300)	(67,743)	(24,443)
Net change in fund balance	600	15,500	(23,872)	(39,372)
Fund balance, beginning of year	121,998	121,998	121,998	-
Fund balance, end of year	<u>\$ 122,598</u>	<u>\$ 137,498</u>	<u>\$ 98,126</u>	<u>\$ (39,372)</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual Major Streets Special Revenue Fund

For the Year Ended February 29, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
State grants	\$ 55,000	\$ 55,000	\$ 52,153	\$ (2,847)
Expenditures				
Current:				
Public works:				
Administrative	2,000	2,000	2,005	5
Routine maintenance	4,100	4,200	1,889	(2,311)
Winter maintenance - snow/ice control	1,000	1,000	2,729	1,729
Contracted services	15,500	21,700	21,148	(552)
Total expenditures	22,600	28,900	27,771	(1,129)
Net change in fund balance	32,400	26,100	24,382	(1,718)
Fund balance, beginning of year	47,645	47,645	47,645	-
Fund balance, end of year	<u>\$ 80,045</u>	<u>\$ 73,745</u>	<u>\$ 72,027</u>	<u>\$ (1,718)</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual Local Streets Special Revenue Fund

For the Year Ended February 29, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue				
State grants	\$ 21,000	\$ 21,000	\$ 20,203	\$ (797)
Expenditures				
Public works:				
Administrative	\$ 1,000	\$ 1,000	\$ 1,007	\$ 7
Routine maintenance	2,700	2,700	2,203	(497)
Winter maintenance - snow/ice control	1,000	1,000	2,127	1,127
Contracted services	<u>10,300</u>	<u>10,300</u>	<u>7,560</u>	<u>(2,740)</u>
Total expenditures	<u>15,000</u>	<u>15,000</u>	<u>12,897</u>	<u>(2,103)</u>
Net change in fund balance	6,000	6,000	7,306	1,306
Fund balance, beginning of year	<u>8,867</u>	<u>8,867</u>	<u>8,867</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 14,867</u></u>	<u><u>\$ 14,867</u></u>	<u><u>\$ 16,173</u></u>	<u><u>\$ 1,306</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Statement of Net Assets Proprietary Funds

February 29, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Water Supply	Sewer	Total	
Assets				
Current assets:				
Pooled cash and investments	\$ -	\$ 150,043	\$ 150,043	\$ 119,989
Accounts receivable	23,344	12,329	35,673	-
Total current assets	<u>23,344</u>	<u>162,372</u>	<u>185,716</u>	<u>119,989</u>
Noncurrent assets:				
Bond issuance costs	23,700	-	23,700	-
Capital assets being depreciated, net	1,402,260	1,112,465	2,514,725	37,450
Total noncurrent assets	<u>1,425,960</u>	<u>1,112,465</u>	<u>2,538,425</u>	<u>37,450</u>
Total assets	<u>1,449,304</u>	<u>1,274,837</u>	<u>2,724,141</u>	<u>157,439</u>
Liabilities				
Current liabilities:				
Negative equity in pooled cash and investments	184,706	-	184,706	-
Accounts payable	1,721	3,444	5,165	6,229
Accrued liabilities	7,040	679	7,719	-
Current portion of long-term debt	70,000	-	70,000	7,901
Total current liabilities	<u>263,467</u>	<u>4,123</u>	<u>267,590</u>	<u>14,130</u>
Long-term liabilities	<u>1,170,000</u>	<u>-</u>	<u>1,170,000</u>	<u>14,482</u>
Total liabilities	<u>1,433,467</u>	<u>4,123</u>	<u>1,437,590</u>	<u>28,612</u>
Net assets				
Invested in capital assets, net of related debt	162,260	1,112,465	1,274,725	15,067
Unrestricted (deficit)	<u>(146,423)</u>	<u>158,249</u>	<u>11,826</u>	<u>113,760</u>
Total net assets	<u>\$ 15,837</u>	<u>\$ 1,270,714</u>	<u>\$ 1,286,551</u>	<u>\$ 128,827</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended February 29, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water Supply	Sewer	Total	Internal Service Fund
Operating revenues				
Utility billings	\$ 103,185	\$ 61,839	\$ 165,024	\$ -
Rental charges	-	10,835	10,835	55,026
Miscellaneous	28,093	-	28,093	-
Total operating revenue	131,278	72,674	203,952	55,026
Operating expenses				
Operating expenses	77,141	62,554	139,695	29,387
Depreciation	62,278	46,307	108,585	12,918
Total operating expenses	139,419	108,861	248,280	42,305
Operating income (loss)	(8,141)	(36,187)	(44,328)	12,721
Nonoperating expenses				
Interest expense	(47,754)	-	(47,754)	(1,428)
Transfers in	67,743	-	67,743	-
Change in net assets	11,848	(36,187)	(24,339)	11,293
Net assets, beginning of year	3,989	1,306,901	1,310,890	117,534
Net assets, end of year	<u>\$ 15,837</u>	<u>\$ 1,270,714</u>	<u>\$ 1,286,551</u>	<u>\$ 128,827</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AUGUSTA

Statement of Cash Flows Proprietary Funds

For the Year Ended February 29, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water Supply	Sewer	Total	Internal Service Fund
Cash flows from operating activities				
Cash received from customers	\$ 103,198	\$ 72,710	\$ 175,908	\$ 55,026
Cash payments to suppliers	(66,815)	(52,878)	(119,693)	(29,150)
Cash payments to employees	(13,746)	(8,194)	(21,940)	-
Other receipts	28,093	-	28,093	-
Net cash provided by operating activities	50,730	11,638	62,368	25,876
Cash flows from capital and related financing activities				
Amortization of bond issuance costs	1,683	-	1,683	-
Principal payments on long-term debt	(65,000)	-	(65,000)	(9,634)
Interest payments on long-term debt	(47,754)	-	(47,754)	(1,428)
Purchase of capital assets	-	-	-	(13,553)
Net cash used by capital and related financing activities	(111,071)	-	(111,071)	(24,615)
Cash flows from noncapital and related financing activities				
Transfers in	67,743	-	67,743	-
Net increase in cash and cash equivalents	7,402	11,638	19,040	1,261
Pooled cash and investments, beginning of year	(192,108)	138,405	(53,703)	118,728
Pooled cash and investments, end of year	<u>\$ (184,706)</u>	<u>\$ 150,043</u>	<u>\$ (34,663)</u>	<u>\$ 119,989</u>
Pooled cash and investments are classified as follows on the statement of net assets:				
Pooled cash and investments	\$ -	\$ 150,043	\$ 150,043	\$ 119,989
Negative equity in pooled cash and investments	(184,706)	-	(184,706)	-
	<u>\$ (184,706)</u>	<u>\$ 150,043</u>	<u>\$ (34,663)</u>	<u>\$ 119,989</u>

continued....

VILLAGE OF AUGUSTA

Statement of Cash Flows Proprietary Funds (Concluded)

For the Year Ended February 29, 2008

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Water Supply</u>	<u>Sewer</u>	<u>Total</u>	<u>Internal Service Fund</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (8,141)	\$ (36,187)	\$ (44,328)	\$ 12,721
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	62,278	46,307	108,585	12,918
Changes in assets and liabilities:				
Accounts receivable	13	35	48	-
Accounts payable	(3,368)	1,033	(2,335)	237
Accrued liabilities	(52)	450	398	-
Net cash provided by operating activities	<u>\$ 50,730</u>	<u>\$ 11,638</u>	<u>\$ 62,368</u>	<u>\$ 25,876</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Augusta (the “Village”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Augusta.

The Reporting Entity

The Village of Augusta is governed by a nine-member Village board; seven members are elected and two are appointed. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with this criteria, there are no component units included in this reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After October 1 of each year, the County pays the Village, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and debt service expenditures are recorded only when payment is due.

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for gas and weight tax revenues that are designated as major streets in the Village.

The *Local Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the Village.

The Village reports the following major proprietary funds:

The *Water Supply Fund* is a municipal utility formed by the Village to pump and distribute the Village water supply.

The *Sewer Enterprise Fund* is a municipal utility formed by the Village to operate and maintain the wastewater collections and treatment.

Additionally, the Village reports the following fund types:

The *Internal Service Fund* is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, or to other governments, on primarily the cost-reimbursement basis. At February 29, 2008, the only internal service fund is the Equipment Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds.
5. Adoption and amendments of all budgets used by the Village are governed by Public Act 621, which was followed for the year ended February 29, 2008. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the Village. Any amendment to the original. Budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Village Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the Village Council.

Pooled Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Receivables and Payables

In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are shown as net of allowance for uncollectible amounts. No amounts outstanding at February 29, 2008 were identified as being uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Highways and streets	20-40
Buildings and building improvements	7-50
Water and sewer distribution systems	30-50
Land improvements	20-40
Vehicles	5-20
Furniture and fixtures	5-7
Other tools and equipment	3-7

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Property Taxes

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on October 1, at which time penalties and interest are assessed.

The Village's 2007 tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended February 29, 2008, when the proceeds of the levy are budgeted and available for operations.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use of a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Compensated Absences

Under terms of Village policies, employees are granted sick, vacation, and personal time. Unused hours may be carried forward into subsequent fiscal years and are paid out at the employees' current rate upon termination of service with the Village. Compensated absences are recorded on the statement of net assets.

Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Construction Code Fees

The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year's activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at March 1, 2007	\$ (5,452)
Current year building permit revenue	736
Direct costs	<u>2,016</u>
Shortfall at February 29, 2008	<u>\$ (6,732)</u>

Noncompliance with Legal Provisions

The Village has not adopted an investment policy as required by Public Act 196 of 1997 of the State of Michigan.

Excess of Expenditures Over Appropriations in Budgetary Funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriate.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted at the functional level.

During the year ended February 29, 2008, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General fund:			
General government	\$ 202,200	\$ 207,984	\$ 5,784
Public safety – police	69,000	69,819	819
Public works – lighting	18,000	21,833	3,833

Deficit Fund Equity

At February 29, 2008, the Village reported deficit unrestricted net assets of \$170,123 in the Water Supply enterprise fund. Net assets (which are positive in total) include an amount for invested in capital assets, net of related debt.

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

3. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fund statements relating to deposits and investments are as follows:

Pooled cash and investments	\$ 430,612
Negative equity in cash and pooled investments	<u>(184,706)</u>
Total cash and pooled investments	<u>\$ 245,906</u>

These deposits are in one financial institution located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Village. Deposits and investments are recorded at fair value.

Cash and investments are composed of the following at February 29, 2008:

Checking and savings accounts	\$ 46,091
Investments	<u>199,815</u>
Total cash and pooled investments	<u>\$ 245,906</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require, and the Village does not have, a policy for deposit custodial credit risk. As of year-end, none of the Village's deposits were exposed to custodial credit risk.

Investments

The Village chooses to disclose its investments by specifically identifying each. As of year-end, the Village had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Money market account	n/a	\$ 199,815	not rated

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" below. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Village's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

Custodial Credit Risk-Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Village does not have a policy for the investment custodial risk. At year-end, the Village was not exposed to custodial credit risk, as all investments are held in the name of the Village.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

Statutory Authority

State statutes authorize the Village to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

4. CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	Balance 3/01/2007	Additions	Disposals	Balance 2/29/2008
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 4,948	\$ -	\$ -	\$ 4,948
Capital assets being depreciated:				
Highways and streets	137,041	-	-	137,041
Buildings and improvements	60,552	-	-	60,552
Land improvements	3,866	-	-	3,866
Machinery and equipment	68,009	1,769	4,140	65,638
Vehicles	143,642	11,784	16,162	139,264
Total capital assets being depreciated	413,110	13,553	20,302	406,361
Less accumulated depreciation for:				
Highways and streets	7,595	4,568	-	12,163
Buildings and improvements	50,537	1,520	-	52,057
Land improvements	3,866	-	-	3,866
Machinery and equipment	56,285	4,145	4,140	56,290
Vehicles	118,551	8,773	16,162	111,162
Total accumulated depreciation	236,834	19,006	20,302	235,538
Capital assets being depreciated, net	176,276	(5,453)	-	170,823
Governmental activities capital assets, net	\$ 181,224	\$ (5,453)	\$ -	\$ 175,771

VILLAGE OF AUGUSTA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Balance 3/01/2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2/29/2008</u>
Business-type activities				
Capital assets being depreciated:				
Water system	\$ 1,965,314	\$ -	\$ -	\$ 1,965,314
Sewer lines and addtions	2,316,373	-	-	2,316,373
Machinery and equipment	76,495	-	-	76,495
	<u>4,358,182</u>	<u>-</u>	<u>-</u>	<u>4,358,182</u>
Less accumulated depreciation for:				
Water system	500,776	62,278	-	563,054
Sewer lines and addtions	1,157,601	46,307	-	1,203,908
Machinery and equipment	76,495	-	-	76,495
	<u>1,734,872</u>	<u>108,585</u>	<u>-</u>	<u>1,843,457</u>
Business-type activities capital assets, net	<u>\$ 2,623,310</u>	<u>\$ (108,585)</u>	<u>\$ -</u>	<u>\$ 2,514,725</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,520
Public works	4,568
Internal service fund	<u>12,918</u>
Total depreciation expense – governmental activities	<u>\$ 19,006</u>
Business-type activities:	
Water supply	\$ 62,278
Sewer	<u>46,307</u>
Total depreciation expense – business-type activities	<u>\$ 108,585</u>

5. INTERFUND RECEIVABLES AND TRANSFERS

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Water Supply Fund	<u>\$ 67,743</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund and other funds to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

VILLAGE OF AUGUSTA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 29, 2008

6. LONG-TERM DEBT

The following is a summary of debt transactions of the Village for the year ended February 29, 2008:

	<u>Balance</u> <u>February 28, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>February 29, 2008</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental activities					
Installment purchase agreement- Radios					
Payments due in annual installments of					
\$2,189 through January 31, 2013;					
interest at 3.34%	\$ 14,310	\$ -	\$ 3,938	\$ 10,372	\$ 2,001
Installment purchase agreement - Equipment					
Payments due in annual installments of					
\$5,500 to \$6111 through June 1, 2009;					
interest at 3.58%	<u>17,707</u>	<u>-</u>	<u>5,696</u>	<u>12,011</u>	<u>5,900</u>
Total installment debt	32,017	-	9,634	22,383	7,901
Compensated absences	<u>7,040</u>	<u>2,605</u>	<u>-</u>	<u>9,645</u>	<u>-</u>
Total governmental activities	<u>\$ 39,057</u>	<u>\$ 2,605</u>	<u>\$ 9,634</u>	<u>\$ 32,028</u>	<u>\$ 7,901</u>
Business-type activities					
Water Supply System Improvement Bond					
Payments due in annual installments of					
\$30,000 to \$75,000 through September 30,					
2016; interest at 5.4% to 6.0%	\$ 570,000	\$ -	\$ 35,000	\$ 535,000	\$ 40,000
Kalamazoo County Water Supply					
System Bond; Payment due in annual					
Installments of \$15,000 to \$45,000 through					
April 1, 2025; interest at 2.125%	<u>735,000</u>	<u>-</u>	<u>30,000</u>	<u>705,000</u>	<u>30,000</u>
Total business-type activities	<u>\$ 1,305,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 1,240,000</u>	<u>\$ 70,000</u>

The annual requirements to maturity on the total long-term obligations outstanding at February 29, 2008 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 7,901	\$ 618	\$ 70,000	\$ 46,022
2010	8,148	371	80,000	43,091
2011	2,074	115	85,000	39,783
2012	2,110	77	90,000	36,164
2013	2,150	39	95,000	32,230
2014-2018	-	-	475,000	90,632
2019-2023	-	-	210,000	25,717
2024-2025	<u>-</u>	<u>-</u>	<u>135,000</u>	<u>4,252</u>
Total	<u>\$ 22,383</u>	<u>\$ 1,220</u>	<u>\$ 1,240,000</u>	<u>\$ 317,891</u>

VILLAGE OF AUGUSTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

7. RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for all the above claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

December 9, 2008

To the Village Council Members
Village of Augusta

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Village of Augusta*** (the “Village”) for the year ended February 29, 2008, and have issued our report thereon dated December 9, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 6, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.



Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. During our audit, we identified, and management approved, several material audit adjustments, as described in more detail below.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 9, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Village of Augusta* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

Village of Augusta
Comments and Recommendations
For the Year Ended February 29, 2008

In planning and performing our audit of the financial statements of the Village of Augusta (the “Village”) as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Village’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. We believe that certain deficiencies, as described below, constitute material weaknesses.

Significant Deficiencies

Finding 2008-1 – Ability to Modify Computerized Transactions

Criteria:	Computerized accounting systems should have some type of feature that either prevents the modification of transactions once posted, or provides some type of audit trail for a reviewer to be able to track any changes made to computerized transactions after posting.
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Village of Augusta
Comments and Recommendations
For the Year Ended February 29, 2008

Finding 2008-1 – Ability to Modify Computerized Transactions (Continued)

Condition:	The Village's accounting software does not prevent the deletion or modification of posted transactions. There is not an audit trail feature available in the software package.
Cause:	This condition is the result of a limitation in the software package used by the Village to maintain its accounting records.
Effect:	As a result of this condition, the Village lacks internal controls over the alteration of posted general ledger and other transactions.
Recommendation:	We recommend that management consider taking other action to address this risk by replacement of the software package.
View of Responsible Officials:	Management is aware of the risks associated with this issue and has purchased a replacement software package subsequent to year end.

Finding 2008-2 – Internal Controls Over Cash Receipts

Criteria:	Cash deposits should be supported by listings of individual cash receipts. These items should be reviewed and approved by an individual independent of the cash receipting process.
Condition:	The Village does not retain sufficient documentation to support individual bank deposits, not are deposits agreed to credits to customers accounts by an independent individual.
Cause:	This condition is primarily due to the limited size of the Village's accounting staff.
Effect:	As a result of this condition, the Village lacks internal controls over the receipt and deposit of cash.
Recommendation:	We recommend that management consider segregating cash receipting duties to the extent possible and file deposits with sufficient supporting document.
View of Responsible Officials:	Management has evaluated the cost vs. benefit of adding additional personnel to the Village office Staff, and determined that it is in the best interests of the Village to maintain the existing number of personnel within the office. A "daily cash received" document will be developed to note daily cash receipts, payee information, accounts to be credited, and an area for an additional staff member to sign off on if possible.

Village of Augusta
Comments and Recommendations
For the Year Ended February 29, 2008

Material Weaknesses

Finding 2008-3 – Preparation of Financial Statements in Accordance with GAAP

Criteria: The Village is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting in the form of financial statements, including the related footnotes and other disclosures (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the Village of Augusta has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Village's *internal* controls.

Cause: This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

Effect: As a result of this condition, the Village of Augusta, Michigan lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: Management has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Village to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Village of Augusta

Comments and Recommendations

For the Year Ended February 29, 2008

Finding 2008-4 – Material Audit Adjustments

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the Village's general ledger to the appropriate balances. These adjustments included adjustments to record financial statements on the accrual method and capitalization of costs and recording of depreciation.
Cause:	This condition was the result of dependence on external auditors, who by definition cannot be a part of the Village's internal control to make adjustments to the general ledger and reconcile certain balance sheet accounts to their underlying detail.
Effect:	As a result of this condition, the Village's accounting records were initially misstated by amounts material to the financial statements.
Recommendation:	We recommend that the Village reconcile all general ledgers to subsidiary detail at least on an annual basis in order to have a more accurate financial picture throughout the year.
View of Responsible Officials:	New accounting software purchased in September 2008 will allow the Village to better and more accurately track general ledger activities throughout the year. The Village Treasurer will work more closely with the Village President and/or President Pro-Tem in reporting accurate financial status documents to the Village Council and Village residents.

Finding 2008-5 – Segregation of Incompatible Duties

Criteria:	Management is responsible for establishing effective internal controls to safeguard the Village's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.
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Village of Augusta

Comments and Recommendations

For the Year Ended February 29, 2008

Finding 2008-5 – Segregation of Incompatible Duties (Continued)

Condition:	As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Events of recent year have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, by not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of an organization's internal control carries with it a greater risk of fraud and abuse.
Cause:	This condition is a result of the Village's limited resources, and the small size of its accounting staff.
Effect:	As a result of this condition, the Village is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.
Recommendation:	While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.
View of Responsible Officials:	The Village Council is aware of the risks associated with this condition, and has made the determination that given the Village's limited resources, full segregation of duties is not feasible at this time. Accordingly, the Finance Committee will continue to review monthly information to mitigate this risk, and rely on the external audit to help identify and correct misstatements, as needed.

Village of Augusta
Comments and Recommendations
For the Year Ended February 29, 2008

Other Matters

Review of Expense Reimbursements

During our audit, we noted that expense reimbursements are not currently subject to independent review and approval. In addition, supporting documentation is not required for reimbursement. We recommend that all employee expense reports be subject to a signed, independent review and approval by an independent administrator or councilmember. In addition, supporting documentation should be required for reimbursement.

Investment Policy

The Village has not adopted an investment policy in accordance with Public Act 196 of 1997 of the State of Michigan. We recommend that the Village Council draft and adopt such a policy.

Approval of Employee Timesheets

During our audit, we noted that not all employees' timesheets are subject to independent review and approval. In order to encourage accuracy of timesheets, we recommend that all timesheets be subject to written review and approval by a knowledgeable supervisor or councilmember.

Internal Controls over Information Technology

During our audit, we reviewed with management a list of recommended information technology controls. We noted various opportunities to enhance controls over IT as it relates to disaster recovery and formal IT policies and procedures. We recommend that the Village review the suggested controls not currently in place and determine whether it would be cost beneficial to revise such controls in the future.

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